

Company Announcement Office
Australian Stock Exchange
20 Bridge Street
SYDNEY, NSW 2000

27 February 2007

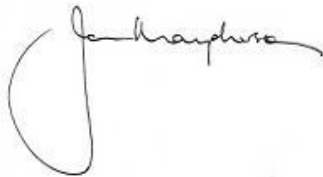
AUSTRALIAN STOCK EXCHANGE RELEASE

Dear Sir or Madam

Freshtel Holdings Limited (FRE) Financial Results– Half Year ended 31 December 2006

Please find attached for immediate release, Freshtel Holdings Ltd Appendix 4D form and Financial Report relating to the 6 months ended 31 December 2006, in accordance with the ASX requirements.

Yours sincerely



Jan Macpherson
Company Secretary

About Freshtel Holdings

Freshtel Holdings Limited (ASX:FRE) is an Australian internet telephone technology company that develops and markets VoIP telephony products and services. Freshtel Holdings Limited offers end-to-end white label VoIP solutions to wholesale customers globally through its wholly owned subsidiaries, Voicedot Networks and Virbiage and has a direct-to-market retail channel through www.freshtel.net

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Appendix 4D

Interim Report

FRESHTEL HOLDINGS LIMITED

ACN

111 460 121

Six Months Ended

31 DECEMBER 2006

Corresponding period was the six months ended 31 December 2005

Results for announcement to the market

RESULTS				
		%		\$A'000
Revenues from ordinary activities	Up	216.91	to	2,212
Profit/(Loss) from ordinary activities after tax attributable to members	Up	61.99	to	(3,776)
Profit/(Loss) for the period attributable to members	Up	61.99	to	(3,776)

EPS

Earnings per Security (cents per share)	31 Dec 2006	31 Dec 2005
Basic loss per share (cents per share)	(2.33) cents	(2.12) cents
Diluted loss per share (cents per share)	(1.91) cents	(1.26) cents

Net Tangible Asset Backing

	31 Dec 2006	31 Dec 2005
Per Ordinary Security (cents per share)	13.08 cents	10.15 cents

Dividend Payable

No dividends have been paid or declared during the period.

Dividend Re-investment Plan

There is no dividend re-investment plan in operation.

Control gained over entities having material effect

Name of entity (or group of entities)	NIL
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Loss of control of entities having material effect

Name of entity (or group of entities)	NIL
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Details of associates and joint venture entities

Name of entity (or group of entities)	NIL
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This report is based on the Half Year Financial Report which has been subject to review by the Auditors. All the documents comprise the information required by Listing Rule 4.2A. This information should be read in conjunction with the Half Year Financial Report and the 30 June 2006 Annual Financial Report.

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

DIRECTORS' REPORT

Your directors submit the financial report of the economic entity for the half-year ended 31 December 2006.

Directors

The names of directors who held office during or since the end of the half-year are:

Mr. Leslie Taylor	Mr. David Elbourn
Mr. Michael Carew	Mr. Sebastian Filzek (resigned 15 November 2006)
Mr. Peter Warner	Mr. Kenneth Loughnan AO
Mr. Andy Dewhurst (appointed 29 January 2007)	

Principal Activity

The principal activities of the Freshtel Holdings Limited are the development and commercialisation of products and services that enable telecommunications over the internet.

Review of Operations

The group incurred an after tax loss attributed to members of \$3,776,000 for the six months to 31 December 2006 which represents a 62% increase on the corresponding period last year.

The six months to December 2006 saw a focus on consolidating the Tesco service and ensuring the retail roll out in the UK was launched successfully. There was significant progress made in product development. Of Freshtel's total 63 headcount, approximately 50% are involved in the ongoing research and development of its products and services. Also progress was made in the ongoing strengthening of our corporate team. This culminated in the appointment of Michael Carew as Director of Global Business Development and John Butkiewicz as Freshtel CEO.

The key developments during the six month period were:

- The continued roll out of the Freshtel branded retail service in the United Kingdom. In addition to the Freshtel/Binatone products delivered to Argos stores, the Freshtel retail brand has been released to Woolworths, QVC and Robert Dyas stores in the United Kingdom
- The introduction of Freshtel's branded retail service through the NARTA Group in Australia.
- The launch of Tesco PLC's ('Tesco') integrated marketing campaign which included TV, interactive TV, radio, press, outdoor, online advertising, in store marketing and staff offers.
- The completion of successful internal trials of Freshtel's converged mobile internet telephone service with phone calls across 3G and WiFi networks.
- The formation of a strategic alliance with Tesco in which Tesco invested \$12.3 million in Freshtel via a private placement to facilitate the development of the necessary hardware, software and network to commercialise future internet phone services.
- The continued growth and strengthening of Freshtel's corporate infrastructure with key appointments to the Board of Directors, senior management and in operations and research and development.

Total revenue for the six months was \$2,212,000 of which \$1,934,000 related to ordinary activities and \$278,000 related to investment activities. The increase of 248% in ordinary activities revenue over the prior corresponding period, related mainly to increased revenue from the Tesco contract.

Operating costs, excluding depreciation, amortisation and interest were \$4,524,000 which represents a 93% increase over the prior corresponding period. As outlined above, Freshtel has strengthened the management and operations teams. The restructure and recent appointments will ensure a dedicated focus for the deployment of new white label contracts. In addition, the ongoing R&D capability is a critical enabler for future success and Freshtel's R&D expertise is well supported by the appropriate systems, infrastructure and expertise to deliver the products to successful commercialisation.

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

DIRECTORS' REPORT

As at 31 December 2006, Freshtel had cash balances of \$19,932,000. On 28 December 2006 Freshtel agreed to issue 17.1 million shares to Tesco. The total proceeds of this issue were \$12,300,000.

Earnings Per Security	31 Dec 2006	31 Dec 2005
Basic loss per share (cents per share)	(2.33) cents	(2.12) cents
Diluted loss per share (cents per share)	(1.91) cents	(1.26) cents

Net Tangible Asset Backing	31 Dec 2006	31 Dec 2005
Per Ordinary Security (cents per share)	13.08 cents	10.15 cents

Adoption of Australian Equivalents to IFRS ("AIFRS")

This interim financial report has been prepared under AIFRS. The key difference arising on the transition to AIFRS is the business combination arising when Freshtel Holdings Limited acquired Freshtel Australia Pty Limited on 30 April 2005. Under AIFRS this is accounted for as a "reverse acquisition" whereby Freshtel Australia Pty Limited is treated as having acquired Freshtel Holdings Limited at that date for accounting purposes. The consolidated entity presented in this half-year report is the entity deemed as headed by Freshtel Australia Pty Ltd.

Rounding of Amounts

The economic entity has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in the financial report and the directors' report have been rounded off to the nearest \$1,000.

Auditor's Declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 4 for the half year ended 31 December 2006.

This report is signed in accordance with a resolution of the Board of Directors.



Ken Loughnan AO
Chairman



Michael Carew
Director

Dated this 27th Day of February 2007

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001 TO THE DIRECTORS OF
FRESHTEL HOLDINGS LIMITED**



I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2006 there have been:

- (a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review, and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

WHK Greenwoods

WHK GREENWOODS

A handwritten signature in blue ink, appearing to read "Anthony Rose", written over a faint, illegible background.

Anthony Rose

Dated this 27th day of February 2007

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

	Economic Entity	
	31.12.2006	31.12.2005
	\$000	\$000
Revenue	2,212	698
Cost of goods sold	(1,037)	(141)
Gross Profit	1,175	557
Employee benefits expense	(2,591)	(867)
Administrative expense	(1,331)	(904)
Marketing expense	(77)	(64)
Depreciation and amortisation expense	(577)	(318)
Finance costs	(6)	(503)
Other expenses	(525)	(510)
Loss before income tax	(3,932)	(2,609)
Income tax benefit	156	278
Loss after tax from continuing operations	(3,776)	(2,331)
Loss for the period attributable to members	(3,776)	(2,331)
Overall Operations:		
Basic loss per share (cents per share)	(2.33) cents	(2.12) cents
Diluted loss per share (cents per share)	(1.91) cents	(1.26) cents

The accompanying notes form part of these financial statements.

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006**

	Economic Entity	
	31.12.2006	30.06.2006
	\$000	\$000
CURRENT ASSETS		
Cash and cash equivalents	19,932	11,361
Trade and other receivables	1,172	1,308
Inventories	221	284
Other current assets	209	167
TOTAL CURRENT ASSETS	21,534	13,120
NON-CURRENT ASSETS		
Receivables	184	65
Property, plant and equipment	1,367	1,214
Deferred tax assets	158	118
Intangible assets	1,440	1,225
TOTAL NON CURRENT ASSETS	3,149	2,622
TOTAL ASSETS	24,683	15,742
CURRENT LIABILITIES		
Trade and other payables	1,246	1,190
Short-term borrowings	39	46
Short-term provisions	248	218
TOTAL CURRENT LIABILITIES	1,533	1,454
NON-CURRENT LIABILITIES		
Long-term borrowings	51	71
Deferred tax liabilities	385	316
Long-term provisions	34	22
TOTAL NON-CURRENT LIABILITIES	470	409
TOTAL LIABILITIES	2,003	1,863
NET ASSETS	22,680	13,879
EQUITY		
Contributed equity	34,399	22,094
Reserves	392	120
Accumulated losses	(12,111)	(8,335)
TOTAL EQUITY	22,680	13,879

The accompanying notes form part of these financial statements.

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

	\$000	\$000	\$000	\$000	\$000	\$000
	Ordinary shares	Perform- ance shares	Accum- ulated losses /Retained earnings	Trans- lation Reserve	Share based payments reserve	Total
Balance at 1.7.2005	4,731	600	(2,181)	-	-	3,150
Loss for the period	-	-	(2,331)	-	-	(2,331)
Capital issued during the period	16,939	-	-	-	-	16,939
Cost of share issue	(907)	-	-	-	-	(907)
Adjustments for translation of foreign controlled entity	-	-	-	(9)	-	(9)
Balance at 31.12.2005	20,763	600	(4,512)	(9)	-	16,842
Balance at 1.7.2006	21,494	600	(8,335)	32	88	13,879
Loss for the period	-	-	(3,776)	-	-	(3,776)
Capital issued during the period	12,300	-	-	-	-	12,300
Share options exercised	5	-	-	-	-	5
Option expense	-	-	-	-	281	281
Adjustments for translation of foreign controlled entities	-	-	-	(9)	-	(9)
Balance at 31.12.2006	33,799	600	(12,111)	23	369	22,680

The accompanying notes form part of these financial statements.

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

	Economic Entity	
	31.12.2006	31.12.2005
	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	2,425	555
Payments to suppliers and employees	(5,461)	(2,729)
Interest received	279	143
Finance costs	(6)	(503)
	<hr/>	<hr/>
Net cash provided by /(used in) operating activities	(2,763)	(2,534)
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of non-current assets	-	187
Distributions from investments	-	187
Purchase of non-current assets	(406)	(692)
Research and development expenditure	(539)	(311)
Loan to related entity	-	(381)
Purchase of Business	-	(240)
	<hr/>	<hr/>
Net cash provided by/ (used in) investing activities	(945)	(1,250)
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	12,305	12,294
Repayment of borrowings	(26)	(499)
Proceeds from borrowings	-	108
	<hr/>	<hr/>
Net cash provided by /(used in) financing activities	12,279	11,903
	<hr/>	<hr/>
Net increase in cash held	8,571	8,119
Cash at the start of the period	11,361	2,321
	<hr/>	<hr/>
Cash at the end of the period	19,932	10,440
	<hr/>	<hr/>

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

These half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2006 and any public announcements made by Freshtel Holdings Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with AIFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRSs ensures that the consolidated financial statements and notes of Freshtel Holdings Limited comply with International Financial Reporting Standards (IFRSs). The consolidated financial statements and notes comply with IFRSs.

Historical cost convention

These financial statements have been prepared on an accruals basis under the historical cost convention, as modified by the revaluation to fair value of financial assets and liabilities (including derivative instruments).

(b) Principles of consolidation

When Freshtel Holdings Limited acquired (as the legal parent) the Freshtel Australia Pty Limited group of companies, the shareholders of Freshtel Australia Pty Limited (the legal subsidiary) obtained 63.1% of the shares in Freshtel Holdings Limited and therefore control of the combined entity. This financial report discloses the consolidated financial statements of the group, with the above transaction accounted for as a reverse acquisition.

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Freshtel Holdings Limited as at 31 December 2006 and the results of all subsidiaries for the year then ended as if the Group was headed by Freshtel Australia Pty Limited. Freshtel Holdings Limited and its subsidiaries are together referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet, respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Freshtel Holdings Limited.

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

Note 1: Statement of Significant Accounting Policies (continued)

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments. The Group operates in a single business segment being the development and commercialisation of products and services that enables communications over the internet. It operates in two geographic segments being Australia and the United Kingdom.

(d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, allowances, duties and taxes paid. Revenue is recognised as set out below:

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Freshtel Holdings Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equity held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

Note 1: Statement of Significant Accounting Policies (continued)

(e) Foreign currency translation continued

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantially enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Freshtel Holdings Limited and its wholly owned Australian subsidiaries formed a tax consolidated group with effect from 1 May 2005 and also entered into a tax sharing and funding agreement. Under the terms of this agreement, the wholly owned subsidiaries reimburse Freshtel Holdings Limited, as the head entity of the tax consolidated group, for any current income tax payable by Freshtel Holdings Limited arising in respect of their activities. There was no material impact arising from implementing tax consolidation.

(g) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Lease income from operating leases is recognised in income on a straight line basis over the lease term.

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

Note 1: Statement of Significant Accounting Policies (continued)

(h) Business combinations

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(n)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Any bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(k) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debt. Trade receivables are due for settlement no more than 30 days. Collection of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where appropriate, a proportion of variable and fixed overhead. Costs are assigned to individual items of inventory predominantly on the basis of weighted average cost. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

Note 1: Statement of Significant Accounting Policies (continued)

(m) Property, plant and equipment

Property, plant and equipment are carried at historical cost less depreciation or amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs, maintenance and minor renewals are charged to the income statement during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Depreciation of all fixed assets including leasehold improvements is calculated using the straight line method to allocate their cost or re-valued amounts, net of their residual values, over their estimated useful lives, as follows:

Leasehold improvements	11 %
Plant and equipment	11 – 34 %
Purchased software	33.3 %
Leased plant and equipment	10 – 20 %

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is shorter. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. Gains and losses are included in the income statement. When re-valued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(n) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisitions of business is included in intangible assets. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 2 to 3 years.

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

Note 1: Statement of Significant Accounting Policies (continued)

(o) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which had not been settled at balance date. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method. Fees paid on the establishment of loan facilities, which are not incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Preference shares, which are mandatory redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(q) Investments and other financial assets

From 1 July 2005

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non current assets. Loans and receivables are included in receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories.

They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within other income or other expenses in the period in which they arise.

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

Note 1: Summary of significant accounting policies (continued)

(q) Investments and other financial assets (continued)

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

(r) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables and provision for employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled, including appropriate on-costs. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, including appropriate on-costs. Consideration is given to the expected future salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Bonus Plans

The Group recognises a liability in other payables and an expense for bonus plans when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit
- the amounts to be paid are determined before the time of completion of the financial report, or past practices give clear evidence of a constructive obligation.

Retirement benefits

Employees of the Group are entitled to benefits on retirement, disability or death from the Group sponsored defined contribution superannuation plans. Fixed statutory contributions are made by the Group to these plans and are recognised as an expense as they become payable. The Group's liability is limited to these contributions.

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

Note 1: Summary of significant accounting policies (continued)

(r) Employee benefits (continued)

Share based payments

The Group provides share-based compensation benefits to employees, whereby employees render services in exchange for options over shares.

- *Shares options granted before 7 November 2002 and/or vested before 1 January 2005*

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

- *Shares options granted after 7 November 2002 and vested after 1 January 2005*

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity (share-based payments reserve). The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the exercise proceeds received are allocated to share capital and the balance of the share-based payments reserve relating to those options is transferred to share capital.

(s) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

(t) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

(u) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

Note 1: Statement of Significant Accounting Policies (continued)

(v) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the Australian Taxation Office, are classified as operating cash flows.

(w) Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to "rounding of" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(x) Critical accounting estimates, judgements and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Useful life cycle of developed product or technology

The Group's management determines the useful lives of capitalised assets and hence the amortisation charges for products and technology developed from IT projects. This estimate is based on the life cycle of the product or technology developed.

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

	Economic Entity	
	31.12.2006	31.12.2005
	\$000	\$000

NOTE 2: Profit / (loss) from ordinary activities

The following revenue and expense items are relevant in explaining the financial performance for the interim period:

Interest received	278	143
Distribution received on dissolution of joint venture arrangement	-	187
Interest paid on dissolution of joint venture arrangement	-	(500)
Other finance costs	(6)	(3)
Depreciation of Property, Plant and Equipment	(253)	(60)
Amortisation of Intangible Assets	(324)	(258)

NOTE 3: Dividends

No dividends have been declared or paid

NOTE 4: Segment information

Primary reporting – Geographic segments

	Australia 2005 \$000	United Kingdom 2005 \$000	Total 2005 \$000
Revenue	560	138	698
Total revenue from ordinary activities	<u>560</u>	<u>138</u>	<u>698</u>
Segment result	<u>(2,375)</u>	<u>(234)</u>	<u>(2,609)</u>
Loss before income tax	(2,375)	(234)	(2,609)
Income tax benefit	243	35	278
Loss after income tax	<u>(2,132)</u>	<u>(199)</u>	<u>(2,331)</u>

	Australia 2006 \$000	United Kingdom 2006 \$000	Total 2006 \$000
Revenue	809	1,403	2,212
Total revenue from ordinary activities	<u>809</u>	<u>1,403</u>	<u>2,212</u>
Segment result	<u>(3,636)</u>	<u>(296)</u>	<u>(3,932)</u>
Loss before income tax	(3,636)	(296)	(3,932)
Income tax benefit	156	-	156
Loss after income tax	<u>(3,480)</u>	<u>(296)</u>	<u>(3,776)</u>

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

NOTE 5: Contingent Liabilities

There are no changes in contingent liabilities since the last annual reporting date.

NOTE 6: Subsequent Event

Except as disclosed in the Directors report, there are no subsequent events which the directors are aware of which require disclosure in this report which have arisen since 31 December 2006 up to the date of this report.

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
ACN 111 460 121**

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 5 to 19:
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - b. give a true and fair view of the economic entity's financial position as at 31 December 2006 and of its performance for the half year ended on that date.

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Ken Loughnan AO
Chairman



Michael Carew
Director

Dated this 27th day of February 2007

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF FRESHTEL HOLDINGS LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Freshtel Holdings Limited, which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the company's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Freshtel Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Freshtel Holdings Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the company's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

**INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF FRESHTEL HOLDINGS LIMITED**

WTK Greenwoods

WHK GREENWOODS

A handwritten signature in blue ink, appearing to read 'AR', with a stylized flourish extending from the bottom right.

ANTHONY ROSE

Dated this 27th day of February 2007